HMRC - OT30131 - Subordinated Interests

The grant by the farmer-in of a subordinated interest in the benefits of future production from a licence interest assigned to him has a capital value, notwithstanding that the future receipts will be chargeable as income of the farmer-out.

The value of the right will need to reflect the degree of probability that future benefits will accrue as well as their extent having regard to the perception of project risk, future oil prices, inflation and discount factors.

Where the right is granted under an exploration farm out not within TCGA92\S194 and before the field is determined, the likelihood of a field existing may be so uncertain that the value may be nil or nominal. However a net production interest in a field under development with fairly well established reserves could be of considerable value, see OT30295+.

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